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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE & GOLD MARKETS

Tuesday 27th May 1980

Europe, which had cared never a whit for the exchanges yesterday, found it hard to comprehend the new levels then reached in the Far East. This morning saw sterling marked back for a while and the dollar uncertain but interest in buying pounds revived. By mid-afternoon recent highs had been surpassed, including the ERI which rose to 74.9 at noon; it closed at 74.7. The yen, too, was under further upward pressure. The latest round of prime rate reductions, led by Morgan Guaranty, to 14% has so far had no effect on the dollar.

Sterling continued well wanted in New York last Friday evening, where it closed at 2.3552 after buying for IMM and Middle East account, and yesterday in the Far East, where it ended at 2.3735 (after 2.3780). It opened at 2.3610 in London this morning and some profit-taking caused a decline to 2.3568 before the widening gap between US and UK interest rates attracted the buyers back in (some, apparently, to finance gilt purchases). Having regained 2.3714 at noon the pound surged further ahead, to 2.3785, and then eased to 2.3685 at the close as some operators took further profits. Eurodollars were steady today, three months closing at 9 11/16%. A covered premium of 1/4% p.a. re-emerged for the pound.

On the Continent the pound was little changed whereas the dollar lost about a net 1%. It fell to 1.7642 in Germany (after 1.7595), the Bundesbank buying \$100 mn. Support was also given in France, Holland and Switzerland to a total of about \$90 mn.; the Fed on Friday evening had spent deutschemark worth \$365 mn. EMS widened to 2% between the French franc (4.1087) and lira (830 1/2). The Swiss franc improved to 1.6390. The Japanese fought hard to contain the yen's advance and bought \$341 mn. yesterday in Tokyo, the rate closing at 218.30. They revised their figure for Friday to a total purchase of \$748 mn. The yen eased this morning to 220.90: no intervention was required but in the last five working days the Bank of Japan have bought nearly \$1 1/2 billion. In London the yen closed tonight at 219.27.

Gold held steady at the higher level reached in New York before the weekend. Fixings were at \$514.20 and \$514.80.

Operations:	Market	+ \$15 mn.
	Interest	+ 13
	Bangladesh	- 12
	New Zealand	- 12
	Sundries	+ 2
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		+ \$6 mn.
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